

23 July 1976

Political stability in the ROK is not merely a reflection of effective political controls and ineffective opposition. It rests also on a remarkable record of economic progress over the past decade. President Park is given a good deal of credit for this. In the past decade:

The GNP has risen from plus other indicators of overall growth and achievements in particular lines of development.

As everywhere, the benefits have been unevenly distributed. But to a significant degree they have filtered down to the factory worker and the peasant.

appropriate illustrative indicators ---  
income levels, social infrastructure,  
use of fertilizers, etc.

Because it is heavily export oriented, the ROK economy was badly hurt by the world-wide slump.

- The ROK economy is particularly closely linked with ours and Japan's. We and the Japanese are the ROK's principal trading partners, suppliers of technology, and sources of foreign capital.
- South Korea was also badly hit by the oil price increase. It is almost entirely dependent on imports for its energy sources.

However, South Korea is now leading almost all of the non-OPEC LDC's in the pace of its economic recovery:

- Real growth was 8% in 1975.
- It will probably be 9% in 1976.
- In 1975 with export volume up 20%, industrial production expanded by 19%.
- This year, so far, export volume is up 65% from the first half of 1975. Consumer goods, especially textiles and footwear, are in the lead.
- Overseas sales will probably not maintain this pace in the next six months. Trade barriers in importing countries -- especially textile quotas -- will almost certainly have a restraining effect.
- Production capacity limits will also operate as a restraint.
- The present annual rate of increase in industrial production -- 36% -- probably cannot be maintained.

In addition to commodity exports, overseas construction will be playing an increasingly important part in the ROK balance of payments.

- New contracts, almost all in the Middle East should reach \$ 2 billion this year, more than double 1975.

The extraordinary surge in exports of goods and services has substantially narrowed Seoul's balance of payments gap and bolstered foreign lender confidence.

- Imports have been held down thus far by high inventories, bumper crops in 1974 and 1975, and government policies.
- Import growth likely in the second half, however, will probably bring the total ~~import~~ bill to \$8 billion in 1976 compared with \$6.5 billion in 1975.
- With exports likely to reach \$7.5 billion, the current account deficit should go at least as low as \$1.2 billion compared with \$2 billion in 1974 and 1975.

In 1976, Seoul should be able to cover its deficit -- about \$1.8 billion -- comfortably from

- new medium and long-term credits, with Western Europe a notably larger contributor this year.
- new direct investments
- a reduced current account interest burden as the result of repayments of short-term credits.

Export growth cut industrial unemployment from 10% in early 1975 to about 6% in the first quarter of 1976.

- Increases in cash earnings in 1975 were wiped out by an equivalent 25% increase in consumer prices.
- In 1976 if the government can contain the inflation rate at the current 10%, real income will increase about 5%.

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Like the southern economy, the economy of North Korea has grown considerably since the Korean war. It too ranks among the more advanced of the LDCs. While North Korean statistics are highly suspect and our independent data is very limited, we believe that

here a brief statement that will tell Carter what is meant when we say has grown considerably and what the basis is for saying North Korea is among more advanced.

North Korea's most remarkable industrial achievements, however, have been in the field of military production. We will be returning to this subject later. In this context it is important to point only that defense industry -- much of it underground -- has been given much higher priority than the development of the civilian sector,

Can we say anything about standards of living?

The North's efforts to build up a heavy industrial base have been facilitated by its possession of substantial natural resources.

-- These include coal, iron ore and hydroelectric power.

Although Kim Il-sung talks constantly of self-sufficiency, North Korea's success at industrialization has fluctuated with its ability to acquire foreign industrial equipment and technology.

The USSR and China contributed to the success of the five year plan, completed in 1960. This created a rudimentary industrial base emphasizing heavy industry. Soviet suspension of aid in the early '60s because North Korea sided with Peking in the Sino-Soviet dispute was a major factor in the failure of the much more ambitious Seven Year Plan that followed.